

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7820

BILL NUMBER: SB 567

NOTE PREPARED: Jan 13, 2005

BILL AMENDED:

SUBJECT: Inheritance Tax Distribution.

FIRST AUTHOR: Sen. Smith S

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill distributes 25% (instead of 8%) of Inheritance Tax collections to the county and 75% (instead of 92%) to the state.

Effective Date: July 1, 2005.

Summary of Net State Impact: The state would experience a net loss of revenue in the state General Fund that could potentially total about \$21.8 M annually beginning in FY 2007.

Explanation of State Expenditures: The bill would provide sufficient additional Inheritance Tax revenue to counties so that annual expenditures from the state General Fund for county Inheritance Tax replacement would probably be reduced to zero beginning in FY 2007.

Background: Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents. Counties are guaranteed a statutorily determined amount under the replacement provision established by P.L. 254-1997. The replacement provision was established to replace county Inheritance Tax revenue lost when the Class A exemption was increased on July 1, 1997. The replacement provision guarantees that each county receives Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997 excluding the highest and lowest years.

Currently, most counties retain more in Inheritance Tax revenues than is guaranteed under the replacement procedure. From FY 2000 to FY 2003, counties exceeded their guarantee amounts by an average of \$4.7 M annually with shortages subject to replacement averaging about \$200,000 per year. The total annual guarantee

to counties is \$7.4 M. Some reductions in county revenue exceeding the guarantee amount will not be replaced by the state resulting in a net reduction of \$200,000 in state expenditures.

Explanation of State Revenues: *Summary:* The bill would reduce state revenue from the Inheritance Tax by about \$22.0 M annually beginning in FY 2007.

Background: Under current statute, 92% of resident Inheritance Tax collections and all Inheritance Tax collections from nonresidents is distributed to the state General Fund. The remaining 8% of resident Inheritance Tax collections is retained by the decedent's county of residence. The bill would decrease the share of resident Inheritance Tax distributed to the state General Fund from 92% to 75% beginning with Inheritance Taxes collected on estates of those who die after June 30, 2005. Since the Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early payment discount), the impact is likely to commence in FY 2007.

The estimated impact of the distribution change is based on the Revenue Technical Committee's Inheritance Tax forecast (published December 14, 2004) for FY 2007 totaling \$120 M. Resident Inheritance Tax collections would total about \$119.3 M (about 99.4% of the total). Based on this total it is estimated that the 8% retained by counties annually would total about \$10.4 M. Thus, increasing the county share from 8% to 25% (and reducing the state share from 92% to 75%) would decrease annual state Inheritance Tax revenue to about \$97.2 M. This assumes that Inheritance Tax revenues remain relatively constant in the future.

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill would result in a net increase in Inheritance Tax revenue to counties totaling about \$21.8 M annually beginning in FY 2007. Increasing the county share from 8% to 25% of resident Inheritance Tax is estimated to result in a \$22.0 M increase to counties. However, it is estimated that this additional revenue would be sufficient to raise every county above its Inheritance Tax guarantee level (see Explanation of State Expenditures). This estimated to eliminate Inheritance Tax replacement payments, providing for the net increase of \$21.8 M.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: State Revenue Forecast (December 14, 2004).

Fiscal Analyst: Jim Landers, 317-232-9869.